

Message Text

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PAGE 01 STATE 080139

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TO AMEMBASSY PARIS

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PLEASE PASS ASSISTANT SECRETARY ENDERS

FOLLOWING REPATS SAN SALVADOR 1338 ACTION DEPT INFO GUATEMALA
MANAGUS SAN JOSE TEGUCIGALPA CARACAS PANAMA LONDON APRIL 7TH

QUOTE

LIMITED OFFICIAL USE SAN SALVADOR 1338

EO 11652: N/A

TAGS: EFIN EAIS ES

SUBJ: VENEZUELAN FINANCIAL FUND LINES FOR COFFEE AND PETROLEUM
REBATE LOAN ARE OPERATIVE

GUATEMALA ALSO FOR ROCAP

1. RECENT VENEZUELAN/SALVADORAN EXCHANGES RESOLVED FOR THE
GOES QUESTIONS CONCERNING THE VENFUN PETROLEUM REBATE AGREEMENT
AND THE FIRST QUARTERLY REBATE, FOR ABOUT \$6 MILLION,
WAS EFFECTED ON OR ABOUT MARCH 31 BY THE CENTRAL RESERVE
BANK (BCR). THE VENEZUELAN TEAM WHICH VISITED MARCH 21 AND 22
ASSURED THE GOES THAT THERE WERE NO LIMITATIONS ON HOW THE
GOES USED THE SIX-YEAR CREDIT. THIS WAS MOST WELCOMED SINCE
THE PRIOR GOV TEAM HAD LEFT THE IMPRESSION THESE FUNDS COULD
NOT BE TOUCHED UNLESS CONVERTED TO THE 25-YEAR PROJECT TERMS.

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PAGE 02 STATE 080139

THE REABTE IS BASED ON PETROLEUM CRUDE FOB VENEZUELA. THUS,

SINCE EL SALVADOR IMPORTS FOR THE ESSO/SHELL REFINERY A RE-CONSTITUTED FEEDSTOCK WHICH IS VALUED OBVIOUSLY HIGHER THAN CRUDE THERE WILL BE THAT PORTION OVER \$6 A BARREL OF LANDED COST ACAJUTLA, EL SALVADOR, IN ADDITION TO FREIGHT AND INSURANCE, NOT COVERED BY THE REBATE.

2. THE VENZUELAN VISITORS ALSO WORKED ON ARRANGEMENTS FOR THE COFFEE RETENTION FINANCING BY THE VENFUN. A COFFEE COMPANY (CSC) OFFICIAL TOLD EMBOFF HE EXPECTED THE FIRST FINANCIAL DRAWINGS TO OCCUR BEFORE JUNE 30; THE INTENDED MARCH 31 DEAL SLIPPED DUE TO COMPLICATIONS WITHIN THE LARGER COFFEE PRODUCER COMMUNITY. THE BCR IN EARLY 1975 BEGAN A HIGHER LEVEL OF COFFEE FINANCING ON THE EXPECTATION OF THE VENFUN AVAILABILITIES. (BCR LEVEL IS NOW \$20 CWT, A FIGURE CSC PRESIDENT TINOCO SAYS IS NOMINALLY THE COST OF PRODUCTION; THE COMPANY MEANWHILE IS BUYING "CENTRAL HIGHS" FOR \$28, BELOW PRODUCTION COSTS.)

3. THE BCR HAS BEEN ENGAGED IN A STRATEGY OF JUGGLING THE OFFERS OF THE VENFUN AND THE LIBERALIZED IMF OIL FACILITY (THREE PERCENT IS MENTIONED). BCR PRESIDENT SUAREZ RECENTLY VISITED THE IMF AND IS TRYING TO KEEP ALIVE THE OPTION OF A POSSIBLE \$24 MILLION BORROWING UNDER THE FACILITY THIS YEAR. YET WE ARE INFORMED THAT THE IMF'S POSITION IS THAT A COUNTRY RECEIVING RELIEF UNDER THE VENFUN AGREEMENT WOULD BE INELIGIBLE FOR WHAT WOULD BE A DUPLICATION OF BALANCE OF PAYMENTS RELIEF FROM THE IMF. WE ARE TOLD THAT SOME CONSIDERATION WAS GIVEN WITHIN THE GOES TO POSTPONING THE FIRST DRAW ON THE VENFUN REBATE UNTIL THE FULLEST USE OF THE IMF SOFT FACILITY WAS COMPLETED. BUT THE IMF'S KNOWLEDGE OF EL SALVADOR'S HAVING SIGNED THE VENFUN AGREEMENT WOULD SEEM TO PRECLUDE THIS ATTEMPT AT HOODWINKING. WE HAVE BEEN TOLD THAT SUAREZ SENT A TELEGRAM TO THE IMF SAYING THE BCR ANTICIPATES THE NEED FOR OIL FACILITY CREDIT THIS YEAR. HE HAS ORDERED A BALANCE OF PAYMENTS STUDY BY HIS STAFF TO DEMONSTRATE THE WEAKNESS OF THE INTERNATIONAL RESERVE POSITION. IF, AS IS BELIEVED HERE, THE IMF VIEWS THE RESERVE POSITION ALMOST EXCLUSIVELY AS THE ELIGIBILITY CRITERION FOR THE OIL FACILITY, THE BCR IS SUFFICIENTLY ADEPT TO ARRANGE A CRITICAL POSITION. AFTER ALL, IT BORROWED THE \$24 MILLION FROM THE FACILITY IN SEPTEMBER 1974 FOR THE EXPRESS LIMITED OFFICIAL USE

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PAGE 03 STATE 080139

PURPOSE OF PUTTING THE RESERVES AT A LEVEL UNUSUALLY HIGH FOR THE PAST YEAR OR SO. THE BCR'S INTERNATIONAL NET RESERVES (VIRTUALLY ALL OF THE BANKING SYSTEM'S DUE TO EXCHANGE CONTROLS) HAVE BEEN AS FOLLOWS, END OF PERIOD: 1973 - \$59.3 MILLION, 1974 - \$93.2 MILLION, JANUARY 1975 - \$90.2 MILLION AND FEBRUARY 1975 - \$72.6 MILLION. WE WOULD NOT BE SURPRISED TO SEE A FURTHER DECREASE FOR END-MARCH SINCE COFFEE EXPORT RECEIPTS ARE RUNNING BELOW OFFICIAL PROJECTIONS.

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